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The Monthly Minute

with State Senator John Pappageorge

P.O. Box 30036 Lansing, MI 48909 Toll Free 1-877-SEN13th (736-1384)
www.SenatorJohnPappageorge.com



Why And How The Budget Crisis Occurred

Dear Friend:

I want to share with you the reason for the budget crisis that almost resulted in a government shutdown. To understand, you need to know how the agreed upon — repeat, agreed upon — system for arriving at a budget, before September 30, every year is supposed to work. Here's how it worked until this year.

In January, nine of the state's 19 budgets originate in the House, and the other ten originate in the Senate. By the end of April, their work is done and the budgets are exchanged between the two Houses. In May, five people get together in a room (the Governor, the Speaker of the House, the Senate Majority Leader, and the two Appropriations Committee Chairs) to figure out how much money we have and how it should be allocated among 19 state budgets. It's not an easy meeting because individuals with different views must reconcile their differences. Budget "targets" are agreed to and sent to the 38 committee chairs whose task then becomes to revise their budgets to stay within specified targets. Not surprisingly, differences occur between House and Senate versions. These differences are reconciled in a series of conference committee meetings and the budgets are ready to go.

It didn't happen that way this year. The Governor complicated what is inherently a difficult target-setting meeting by insisting that the group assume that an additional \$1.8 billion would be available. Where did this \$1.8 billion figure come from? We started out this budget process \$900 million in the hole. To compound the problem, the Governor, in her state-of-state address added 17 new programs, plus pay raises, for another \$900 million.

Her proposal violated the long-standing accepted practice of dealing only with real money at the target-setting meeting. Hence, targets were not forthcoming and thirty-eight budget committee chairs, nineteen in the House and nineteen in the Senate, kept waiting for their target numbers so they could complete their budgets. In my view, the Governor was highly disingenuous in accusing the Legislature of inaction when she's the one who threw the monkey wrench in the long-established process that would have produced budget targets. You can't do a budget without a target number.

Under normal circumstances, targets based on available money would have been issued in May and budgets would have been done in time. After that we would have engaged in debates over what kind of cuts, reforms and tax increases might be necessary to add to a supplemental appropriation to better serve the citizens of this State. There would have been no threat of a shut down and no need of a continuation budget to avert that threat. That day in May when the Governor subverted the targeting process is the reason we faced a budget crisis. While I do not agree with them, I cannot fault those who feel we need to raise taxes. I do fault the Governor for wrecking the process by which this issue could have been resolved without the threat of a shutdown.

Sincerely,

John Pappageorge

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New \$613.8 Million Tax on Services

As a result of months of negotiations and the threat of a government shutdown, \$1.4 billion in tax increases were recently passed to balance the fiscal year 2007 budget. Over \$600 million of that will come from a new tax on services, while the rest comes from an increase in the income tax.

Senator Pappageorge voted "no" on all tax increases, and instead

supported reducing government spending, eliminating waste and implementing government reforms. The services included in the new law range from janitorial services to self-storage units. For the most current list, visit the back page of this newsletter.

Senator Pappageorge said he has concerns with the new law. "My fear is, that once this tax structure

is in place, it will be easier to expand it to include more services."

Many questions remain over what exactly is included in the current language of the law. For more detailed information, visit the Department of Treasury Web site at www.michigan.gov/treasury. Check frequently for the most updated information.

Senator Pappageorge to Hold Town Hall Meeting on Service Tax

Senator Pappageorge extended an invitation to all area Chambers of Commerce to discuss the new tax on services. The Town Hall styled meeting will be held on October 29th at the Troy Community Center (3179 Livernois).

Pappageorge, who opposed the tax on services and the increase in the income tax, said "while I fought to prevent solving the budget on the backs of taxpayers, the reality is that it happened. The focus now must be on ensuring that everyone who is included in the new tax has the proper in-

formation to implement it as painlessly as possible."

A tax increase of this magnitude, which requires many businesses to set up an entirely new process of collecting and reporting taxes, requires careful deliberation on the part of many individuals.

"I am putting together a panel of policy experts to not only answer questions, but to listen to concerns so that the proper measures can be taken to address flaws in the new law."

While the Senator says that he is as "frustrated" with the tax on services as many of his constituents, this meeting is about bringing to the table the genuine concerns of businesses that are affected under the new tax. "I am ready and willing to bring these concerns to Lansing and work to address any and all flaws in the new law."

For further details or to inquire about attending the meeting, contact Justin Winslow, Chief of Staff. You can reach him by e-mail at jwinslow@senate.michigan.gov.

Pappageorge Bill Expands Homestead Tax Credit

Senator Pappageorge recently introduced legislation to increase the household income cap for homestead property tax credits.

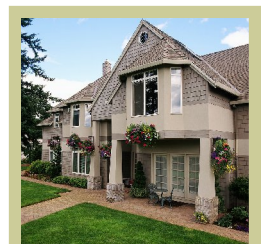
For tax years beginning on or after January 1st, 2008, a full credit could be claimed by households earning less than or equal to \$86,500. Currently, households with

income exceeding \$73,650 received a reduced credit by 10% for each additional \$1,000 in income.

"Michigan families are struggling to stay afloat one of the worst economies our state has ever seen. Expanding the homestead credit will offer relief to more of

those who are struggling" said Pappageorge.

Senate Bill 790 was referred to the Committee on Finance.



Detroit River International Crossing Lacks Common Sense

By: Senator John Pappageorge

Spending money for the sake of spending money doesn't make much sense - yet that is exactly what some elected officials and the Michigan Department of Transportation (MDOT) want to do with the Detroit River International Crossing. Instead of taking a thorough look at the serious environmental and financial concerns, MDOT insists on moving forward with plans to build a bridge on a massively polluted site.



The location selected for the proposed bridge, deemed "contaminated" by both the U.S. Environmental Protection Agency and the Michigan Department of Environmental Quality is a former coking facility that polluted the local environment for more than 80 years. It is located where the Detroit and Rouge rivers meet in southwest Detroit.

Chemicals identified at the site range from petroleum-based compounds and benzene (a known cancer causing agent) to ammonia and cyanide, dangerous toxins. This is not ground we should build on. New construction will surely release these toxins into both rivers and will have bad consequences for any aquatic life that make those waters their home.

Despite the state's current budget problems, MDOT wants to spend billions of dollars building an unnecessary bridge when the privately owned Ambassador Bridge is committed to investing private funds to twin its existing structure. In addition, the federal government will provide \$2 billion to spend on any transportation projects we deem appropriate only if the Ambassador Bridge is twinned. On the other hand, building a new crossing would result in massive taxpayer subsidies.

In addition to the \$4 billion needed for construction of the Detroit River International Crossing, the project would result in another \$1 billion in taxpayer money to reconfigure existing highway infrastructure.

In fact, MDOT has already spent about \$14 million on the crossing study and could spend an additional \$20 million, even though border truck traffic crossing has continually declined since 1999. This is the same government agency that wants to increase the gas tax nine cents a gallon and double vehicle registration fees. Do these decisions show financial restraint?

We have a right to in-depth answers before another dime is spent on this project. The Senate recently passed an amendment that would have required legislative oversight of the crossing study. Unfortunately, the language was stripped from the bill by the House of Representatives.

During difficult economic times we need to be financially frugal and make certain that taxpayer dollars are not spent unwisely or unnecessarily.

Services Now Included in 6% Sales Tax

This information is provided by the non-partisan Senate Fiscal Agency. For more detailed information, please contact the Department of Treasury directly. Additional information will be on their Web site soon. Visit them at www.michigan.gov/treasury or, to speak to a customer service representative, call 1-517-636-4730 Monday through Friday between 8 a.m. and 4:45 p.m.

Business Service Centers	Mailbox rental, copy centers, office support (mailing, copying, on-site PC rental)
Carpet and Upholstery Cleaning	Cleaning and dyeing used rugs, carpets, and upholstery
Mini-Warehouse/Self Storage	Renting/Leasing space for self-storage
Security System Services	Services related to selling security systems and remote monitoring of electronic alarm systems
Investigation, Guard, and Armored Car	Providing investigation and detective services
Investment Advice	Providing customized investment advice to clients on a fee basis
Janitorial Services	Cleaning building interiors, interiors of transportation equipment, or windows
Landscaping Services	Provides landscape care/maintenance along with design/construction of landscaped exteriors
Office Administration Services	Provides day-to-day administrative services (billing/recordkeeping, personnel, financial planning)
Service Contracts	Optional warranties sold with tangible personal property
Personal Care (No Haircuts)	Appearance care services except hair cutting and styling (nails, diet, and weight management)
Other Travel and Reservation	Travel arrangements and reservation services provided other than travel agents/tour operators
Scenic Transportation	Utilize transportation to provide recreation and entertainment (steam trains/charter boats)
Skiing	Operating downhill, cross-country, or related skiing areas, and ski lifts and tows
Tour Operators	Arranging and assembling tours sold through travel agencies or tour operators
Couriers and Messengers	Provide intercity and/or local delivery of parcels
Transit and Ground Passenger	Taxi and limousine services
Specialized Design (Interior Design)	Planning, designing, and administering projects in interior spaces
Consulting	Providing assistance on management, financial, marketing, environmental, scientific and technical issues
Packaging and Labeling Services	Packaging client-owned materials and labeling and/or imprinting the package.
Document Preparation Services	Letter/resume writing, editing/proofreading, typing/word processing, transcription
Warehousing and Storage	Operating warehousing and storage facilities for general items/refrigerated goods/other products
*Other Personal Services	Services included in Other Personal Services are astrology, baby shoe bronzing, bail bonding, balloon-ograms, coin-operated personal service machines, comfort station operations, concierge, consumer buying, credit card notification, dating, discount buying, social escort, fortune telling, genealogical investigation, house sitting, social introduction, coin-operated rental lockers, numerology, palm reading, party planning, pay telephone, personal fitness trainer, personal shopping, coin-operated photographic machines, phrenology, porter, psychic, restroom operations, shoeshine, signing telegram, wedding chapel (not churches), and wedding planning services

Questions or Comments?

If you have any questions or comments regarding information in this newsletter, or wish to be removed from or added to the mailing list, please contact my office at the following information:



State Senator John Pappageorge

P.O. Box 30036

Lansing, MI 48909

517-373-2523 (phone) 517-373-5669 (fax)

www.SenatorJohnPappageorge.com (website and email)